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Viewing cable 06VIENTIANE307, ADB EXAMINES ITS OPTIONS IN A DONOR-DRIVEN ECONOMY

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Reference ID	Created	Released	Classification	Origin
06VIENTIANE307	2006-03-31 09:13	2011-08-30 01:44	CONFIDENTIAL	Embassy Vientiane

Appears in these articles:

<http://www.mcclatchydc.com/2011/04/22/112679/wikileaks-cables-bare-secrets.html>

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C O N F I D E N T I A L SECTION 01 OF 04 VIENTIANE 000307

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SUBJECT: ADB EXAMINES ITS OPTIONS IN A DONOR-DRIVEN ECONOMY

REF: VIENTIANE 212

VIENTIANE 00000307 001.2 OF 004

Classified By: amb. Patricia Haslach. reason 1.4 b and d

¶1. (C) Summary. As part of a new Country Strategy and Program (CSP), the Asian Development Bank (ADB) is to re-vamp and trim its lending and granting policies for Laos. This is partly in response to criticisms of ADB projects from development partners, but mostly due to ADB guidelines for continued assistance following GoL recalcitrance in promised reforms over more than a decade of easy money. The prospect of changes in ADB foci in Laos seems promising, though the CSP is still vaguely worded and likely to remain so to avoid alarming the GoL. In fact, ADB's development priorities in Laos need to be reversed. End Summary.

Janus meets Janus

¶2. (U) During the first week of March the Asian Development Bank (ADB) in Vientiane hosted a sit-down with interested donors and missions to review its record and offer the outline of a gradually developing plan for the Bank's future activities in Laos, summed up in the Country Strategy and Program (CSP). Evidently in response to criticism of past ADB projects, there will be some shifts in emphasis - away from a broad, indeed scatter-shot approach to development of "big" sectors like energy and transportation (in lock-step with the desires of the GoL), and toward (equally broad and really quite vague) "pro-poor growth", "inclusive social development", "good governance", and "regional integration". There is to be more care for consultation with development partners and donors, which we would welcome. The new CSP is intended to be: "mindful of risks, while helping Laos move to a higher growth and socio-economic development trajectory that is sustainable, employment intensive, and safeguards options for future generations". Some observers felt justified in questioning whether there will be significant changes.

¶3. (SBU) The meeting was a useful venue for some frank talk, but had schizophrenic aspects, as well. The ADB Resrep led off with an upbeat if somewhat fey overview. His presentation was well crafted and collegial, offering coordination and soliciting input and critique, but contained items that gave his interlocutors considerable pause. Among them, that further ADB engagement in Laos is justified because:

A - Poverty rates are falling (that is happening only in a few areas).

B - There has been progress on Millennium Development Goals (but not on non-income MDGs - i.e. on the governance-related ones).

C - There is robust GDP growth among vibrant regional economies (strong neighboring economies and rampant extractive resource exploitation are producing a simulacrum of GDP growth).

D - FDI inflows are increasing (mostly from China - Laos remains one of the most difficult places in the world to invest and do business).

E - Decision making has devolved to provinces and villages (Any real decision must still go to the top of the politburo for consideration, even for things like "will we allow a fashion show in Vientiane?").

F - There has been improvement in core governance areas such as rule of law, more sound financial management, public service reforms, and people's participation (that is flatly untrue - all of it).

The ADB Resrep also cited some "country risks" in Laos, but merely implied that governance in Laos is not up to snuff, and certainly did not spell out that the GoL, long the recipient of so much aid, is the whole problem. If the

purpose of the oddly upbeat presentation from the Resrep was to forestall counterblasts from the assembled donors and NGOs in front of his official visitors from ADB Manila, it didn't work.

Collared

14. (SBU) The core message was yet to come. The Resrep was followed by his ADB visitors, who explained why ADB must now begin to lend to Laos according to a "collar" of performance-based standards, like those applied to other countries. The reason: Laos has not performed as promised. ADB is now obligated by its own guidelines to impose some limits on its program funding in Laos, due to GoL failures to toe the mark in reforms over the past 15 years. This collar may or may not result in real reductions on grants (cutbacks of approximately 50 percent were mentioned). Eighteen criteria with reference to financial management, rule of law, transparency, and other aspects of governance, are to come into play whenever a program for Laos comes into consideration. The GoL is utterly remiss in all these areas, and this is the very rock on which the IMF poverty reduction program in Laos foundered.

ADB does some good stuff here

15. (C) ADB comes in for a lot of criticism, some of it undeserved. They are faulted by donors for throwing too much money in too many directions, and for not watching what is done with it very closely. The Japanese Embassy in Vientiane (ironically, itself the source of a great deal of feckless donorship) opines that ADB Manila is preoccupied with its programs in China, India, and other large developing economies, and therefore pays little heed to the quality of its programming in tiny Laos. The result is loose programming, looser project oversight, and sloppy budget control. The Japanese therefore now require that each program be explained to them individually by ADB representatives, a practice Post will emulate. Some ADB-funded development schemes have gone seriously awry right from the conceptual get-go, such as pushing industrial tree plantation in the north of the country - a large part of which is fast becoming a Chinese, Thai, and Indonesian commercial rubber plantation zone in which the forests have disappeared and the traditional livelihoods and access rights of villagers are shoved aside.

16. (C) However, ADB's successes should not be discounted. Just as there would be no health care to speak of in Laos without the Global Fund, there would be no infrastructural development to speak of without Japanese and ADB largesse. Infant mortality has dropped, the population is growing fast (though with no educational system or job market to receive all the young people), and there are some new roads and other kinds of infrastructure. The rural electrification effort ADB has mounted over the past decade has been a fine example of how development ought to work.

But it costs a lot. . .

17. (C) so maybe the multilateral donors who fund ADB in order to promote economic growth and free market reforms should get some such reforms in exchange. The average ADB loan in Laos is \$11 million. For the period between 1995 and 2005 alone, \$710 million in loans came Laos' way (grants only kicked in during 2005), \$557 of it direct, and \$154 million for broader, regional use. Of the money given directly to Laos, 28 percent went to transportation and communications, 20 percent to urban water supply and sanitation, 19 percent to energy-related projects, 12 percent to agriculture and natural resource exploitation, 8 percent to finance, industry and trade development, 8 percent to education, 5 percent to health and nutrition. ADB prides itself on the degree to which its programs dovetail with the GoL's 5-year development plan and its 20-year plan for poverty reduction. The former

is a Communist Party document that only this year, for the first time, contains any reference to the poverty reduction goals, and (also a first) has been glimpsed by donors before being graven in stone. The latter is a wholly donor-made and donor-driven document intended to justify largesse, and quite deficient in proposals to develop private enterprise and a free economy. This year (also a first) the donor's poverty reduction plan was at least mentioned in the draft 5-year plan.

Is more aid the solution?

¶18. (C) Despite two generations of aid from successive congeries of donors (American, then Soviet, then international), this is still an extremely poor country, if one does not belong to the political elite. Although GoL ministers and officials with salaries of less than 75 dollars per month sport villas and cars worthy of Monte Carlo, GDP per capita is still officially less than \$400 (probably a lot less - GoL figures have a good deal of wish fulfillment to them). Debt amounts to 80 percent of GDP. Unemployment is epidemic, underemployment is endemic, crime is rising, and the investment climate is among the least hospitable in the world. The tiny banking sector is opaque and remains a non-performing loan (NPL) factory for SOEs and other forms of crony lending, despite IFI attempts to install reforms.

¶19. (C) It's no accident that these economic ills are not addressed. There is almost no rule of law or basic human freedom in Laos, and education is in the hands of a corrupt and ideologically hidebound ministry that uses ADB money to build a grandiose but unnecessary new ministry building while rural children sit on logs and try to remember what a teacher looked like. Any motion on the part of the GoL, however insignificant, is greeted with applause from donors wont to treat even stonewalling as cause for guarded optimism. Almost every donor publication that discusses the economy touts the GoL's New Economic Mechanism (NEM) of the mid-1980s as a turning point toward a brighter future. In fact, the NEM is almost identical to the New Economic Policy (NEP) installed by Lenin in the nascent USSR in 1921, suggesting that the regime in Laos thinks it has plenty of time to hold the outside world at arm's length.

Whose fault is this?

¶10. (C) It is a commonplace among foreign representatives in Vientiane that Laos has donors and foreign NGOs (indigenous NGOs are forbidden), instead of good government. There's a simple reason for that - by bankrolling the government here donors insulate it from pressures to change. Now that the Chinese are in the investment and aid games with both feet, it may be that a 15-year opportunity to elicit reforms in exchange for aid and budget support (since the collapsing Soviets withdrew their aid) is lost. Whether that is the case or not, at last there is a belated measure of donor stock-taking. Reftel recounted the GoL's sorry record in living up to its obligations under International Financial Institution programs, and the attitudes the IFIs are displaying about it.

¶11. (C) In fact, though, no one is likely to really do much. The several IFIs have different corporate cultures, but singly or collectively they have never held the host government's feet to the fire when one of their supposedly interlocking programs is thwarted. In Laos, of the three (IMF, World Bank, and Asian Development Bank), the IMF is most often openly critical of the GoL, while ADB is most egregiously prepared to overlook poor performance in the interests of uninterrupted disbursement.

¶12. (C) Comment: It is a great pity that a half-century of aid and the GoL's manifest dependence on it has not been translated into leverage for reform. This has not happened because neither the Japanese (the largest bilateral donor), nor ADB (the largest multilateral) have a sense of what such

a fulcrum might be used for. Now that ADB is claiming to be re-thinking development priorities, those priorities should be reversed. Health, nutrition, and education projects (provided there is a heavy ration of curriculum reform) are morally unambiguous and do not directly benefit a bankrupt, corrupt, and reflexively repressive regime. Small business development is likewise a potentially productive way to go, especially in that it may result in something akin to a civil society - or at least an interest group not entirely under the thumb of the Communist Party. These worthy things have had the short end of the ADB development stick heretofore, and the vague promise that they will now be given greater weight should be lived up to. In contrast, infrastructure development, while doubtless to the good, is seized upon by the regime as a badge of all they have done to develop the country, and why one and all should acquiesce in their remaining in power. Such large construction projects are also most readily tuned to the purposes of corrupt GoL contracting patronage networks. Donors who wring their hands quietly over human rights abuses, and the GoL's refusal to reform much of anything, are to consider that to bankroll a regime like this one is to be complicit in its career.

HASLACH